

Mossberg's Investor Digest

January 2010

January 2010 Issue

Issue #19

From the Editor...

I was looking through some of the profiles I've written over the past 18 months.

I've had some ideas that have underperformed, but the investment thesis is still intact. One of these ideas worth looking at again is CPI Corp (NYSE: CPY). CPY won a proxy fight against an activist shareholder this past year. Since that time, the activist has been selling shares almost every other day, creating an overhang for the stock. As of the latest filing on January 20, the investor had sold approximately 60% of his original position and has approximately 600,000 shares left. While this still represents significant overhang, two large trading days (5x and 10x normal trading volume) during January indicate the activist is getting more aggressive with sales and there is an investor willing to pay up for shares. The stock is attractively valued at 3.5x EV/ EBITDA and it also pays an attractive yield 4.6%.

We've also had several winners including i2 Technologies, which was acquired by JDA Software at nearly three times the price at the time it was profiled, and Broadview Security (NYSE: CFL), which just announced that it was being acquired by Tyco (NYSE: TYC) for almost twice the price at the time of the profile.

Thank you for your interest in Mossberg's Investor Digest. I welcome your feedback.

Dave Mossberg

AspenBio Pharma (Nasdaq: APPY) – \$2.20, January 22, 2010, Page 3 – AspenBio Pharma is a pre-revenue biotechnology company that has developed a novel blood test AppyScore™ that can rapidly aid in the diagnosis of appendicitis. Prior to the missteps of the former management team and based on the anticipated success of the new appendicitis test, shares traded between \$6 to \$8 per share (and peaked at \$14). If the new management is successful in making progressive steps towards commercialization, which appears to be the case, the company's value should increase in line.

Cano Petroleum (Amex: CFW) – \$0.87, January 27, 2010, Page 4 – In September, Cano announced a proposed merger with Resaca Exploration, Inc. The value of Resaca shares which will be issued in exchange for Cano is a 34% premium to Cano's current share price. If the transaction is completed and Resaca share price stabilizes, Cano shareholders will capture the arbitrage. Longer term, as costs are reduced and debt levels are rationalized, shares should trade at a multiple of current levels.

MarineMax (NYSE: HZO) - \$2.73, January 27, 2010, Page 5 – Marine Max is the largest dealer of new and used high-end boats in the United States. Applying historic margin levels to the current revenue run rate of about \$600 million, the company's earnings power would equal \$0.80 to \$1.35. At today's multiple that would equate to 50% to 100% upside.

China Yuchai International Limited (NYSE: CYD) – \$13.40, January 29, 2010, Page 6 – Yuchai is the largest diesel engine, power generator and engine parts manufacturer and distributor in China. CYD has hired Ernst & Young as its auditor after having some reporting issues during 2008. Hiring a respected accounting firm combined with increased transparency should give investors more confidence in the truthfulness and accuracy of its numbers and allow valuation multiples to expand.

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Mossberg's Investor Digest

Mossberg's Investor Digest Idea Performance

Below is a table with the performance of the ideas compared to the broad market Russell 3000 Index. The thesis of the newsletter is that the best ideas of the smartest investors I know should outperform the market. So far...so good.

Company	Pub Date	Original Price	Current Price	Change	Russell 3000 Change Since Pub Date	Relative Perf	
I2 Technologies (Nasdaq: ITWO)	9-Jan	6.49	19.79	204.9%	19.6%	185.3%	
Cornell Companies (NYSE: CRN)	23-Jan	14.67	21.00	43.1%	31.1%	12.0%	
Brinks Home Security (NYSE: CFL)	28-Jan	22.46	41.00	82.5%	24.7%	57.9%	
SmartPros (Nasdaq: SPRO)	29-Jan	2.65	3.15	18.9%	29.1%	-10.2%	
Diana Shipping (NYSE: DSX)	17-Feb	13.81	13.26	-4.0%	37.7%	-41.7%	
DG FastChannel (Nasdaq: DGIT)	20-Feb	15.84	27.25	72.0%	41.4%	30.6%	
SAVVIS (Nasdaq: SVVS)	25-Feb	5.79	15.74	171.8%	42.6%	129.3%	
Anika Therapeutics (Nasdaq: ANIK)	28-Feb	3.42	6.31	84.5%	48.0%	36.5%	
World Acceptance (Nasdaq: WRLD)	13-Mar	14.08	40.39	186.9%	44.1%	142.8%	
Integrated Silicon Solution (Nasdaq: ISSI)	20-Mar	1.55	5.77	272.3%	41.8%	230.4%	
Intevac (Nasdaq: IVAC)	23-Mar	5.34	14.23	166.5%	33.5%	133.0%	
Carriage Services (NYSE: CSV)	30-Mar	1.50	3.85	156.7%	38.2%	118.4%	
Pure Technologies (TSX: PUR)	14-Apr	3.26	4.70	44.2%	28.9%	15.2%	
RadioShack (NYSE: RSH)	20-Apr	9.68	19.52	101.7%	30.2%	71.4%	
Evolution Petroleum (Amex: EPM)	24-Apr	2.68	4.53	69.0%	24.8%	44.2%	
ePlus (Nasdaq: PLUS)	29-Apr	12.00	15.72	31.0%	23.5%	7.5%	
Signet Jewelers (NYSE: SIG)	11-May	17.76	27.36	54.1%	18.8%	35.2%	
Smart Balance (Nasdaq: SMBL)	15-May	7.71	5.56	-27.9%	22.8%	-50.7%	
Virtus (Nasdaq: VRTS)	22-May	15.15	16.37	8.1%	22.0%	-14.0%	
China 3C (OTCBB: CHCG.OB)	31-May	1.08	0.48	-55.6%	17.6%	-73.2%	
Virtusa (Nasdaq: VRTU)	16-Jun	7.26	8.91	22.7%	18.6%	4.1%	
MedQuist (Nasdaq: MEDQ)	18-Jun	3.84	6.83	77.9%	17.7%	60.2%	
GameStop (NYSE: GME)	26-Jun	22.17	19.77	-10.8%	17.4%	-28.3%	
CPI Corp (NYSE: CPY)	29-Jun	16.26	13.46	-17.2%	16.5%	-33.8%	
Mattel (NYSE: MAT)	10-Jul	15.19	19.72	29.8%	22.6%	7.2%	
Novavax (Nasdaq: NVAX)	17-Jul	3.04	2.17	-28.6%	14.9%	-43.5%	
ABB (NYSE: ABB)	20-Jul	15.91	18.03	13.3%	14.9%	-1.5%	
Teva Pharmaceutical (Nasdaq: TEVA)	21-Jul	49.10	56.72	15.5%	13.5%	2.1%	
Palm Harbor Holmes (Nasdaq: PHHM)	11-Aug	2.73	2.05	-24.9%	8.1%	-33.1%	
Adapteq (Nasdaq: ADPT)	25-Aug	3.02	3.04	0.7%	4.7%	-4.0%	
TierOne Corp. (Nasdaq: TONE)	31-Aug	2.38	1.00	-58.2%	4.6%	-62.8%	
Dover Motorsports (NYSE: DVD)	31-Aug	1.49	2.24	50.3%	4.6%	45.7%	
Graphic Packaging (NYSE: GPK)	18-Sep	2.29	3.38	47.6%	0.3%	47.3%	
White Electronic Designs (Nasdaq: WEDC)	21-Sep	4.52	5.00	10.6%	0.6%	10.0%	
John B Sanfilippo & Son (Nasdaq: JBSS)	30-Sep	11.92	15.25	27.9%	1.5%	26.5%	
Hastings Entertainment (Nasdaq: HAST)	30-Sep	4.19	4.24	1.2%	1.5%	-0.3%	
TurboSonic Technologies (OTCBB: TSTA)	13-Oct	1.20	0.71	-40.8%	-0.3%	-40.5%	
Verisk Analytics (Nasdaq: VRSK)	23-Oct	28.37	28.12	-0.9%	-0.4%	-0.5%	
Iconix Brand Group (Nasdaq: ICON)	30-Oct	11.66	12.62	8.2%	4.3%	4.0%	
FTI Consulting (NYSE: FCN)	30-Oct	40.81	41.45	1.6%	4.3%	-2.7%	
Vimicro (Nasdaq: VIMC)	19-Nov	4.18	4.58	9.6%	-1.2%	10.8%	
Haynes International (Nasdaq: HAYN)	19-Nov	26.51	29.29	10.5%	-1.2%	11.7%	
TomoTherapy (Nasdaq: TOMO)	27-Nov	3.16	4.05	28.2%	-0.7%	28.9%	
Abraxas Petroleum (Nasdaq: AXAS)	27-Nov	1.99	1.96	-1.5%	-0.7%	-0.8%	
Aerostale (NYSE: ARO)	18-Dec	32.40	32.89	1.5%	-2.5%	4.0%	
Alamo Group (NYSE: ALG)	19-Dec	15.59	17.95	15.1%	-2.5%	17.6%	
inContact (Nasdaq: SAAS)	22-Dec	2.73	3.00	9.9%	-3.9%	13.8%	
Speedway Motorsports (NYSE: TRK)	24-Dec	17.49	16.62	-5.0%	-4.8%	-0.2%	
AspenBio Pharma (Nasdaq: APPY)	22-Jan	2.20	2.10	-4.5%	-1.8%	-2.7%	
MarineMax (NYSE: HZO)	27-Jan	9.53	9.31	-2.3%	-2.3%	0.0%	
Cano Petroleum (Amex: CFW)	27-Jan	0.87	0.99	13.8%	-2.3%	16.1%	
Yuchai International Limited (NYSE: CYD)	31-Jan	13.40	13.40	0.0%	0.0%	0.0%	
				Average	36.2%	14.7%	21.4%

The table above shows the relative increase (decrease) in the value of the ideas published during the past eleven months. For comparison purposes, the relative change in the Russell 3000 Index is shown. **Performance data quoted represents past performance and does not guarantee future results.** Current performance of the ideas may be lower or higher than the performance quoted. Investors should consult a financial advisor before investing in any securities highlighted in the Digest or subscribing to any newsletter service. Best Idea profiles highlighted in Mossberg's Investor Digest are not based upon individual needs of subscribers nor are they an offer to buy or sell securities.

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Best Idea Profile

AspenBio Pharma (Nasdaq:APPY)

DESCRIPTION:

Founded in 2000, AspenBio Pharma is a pre-revenue biotechnology company that has developed a novel blood test AppyScore™ that can rapidly aid in the diagnosis of appendicitis. The company has also developed novel reproduction drugs for use in high value animals, primarily dairy cows.

KEY INVESTMENT CONSIDERATIONS:

AppyScore test for diagnosing appendicitis is far better at ruling out appendicitis as the cause of abdominal pain. Appendicitis is the inflammation of the appendix, a 4-inch long tube that is attached to the large intestine and serves no function. (Charles Darwin proposed that the appendix was used by our primate ancestors for digesting leaves and its function was lost in the evolutionary process.) When blocked, the appendix becomes inflamed and can potentially burst, leading to complications including death. This is a rapidly progressing condition, which can progress from inflammation to rupture in 24 to 36 hours, so it is important that it be diagnosed quickly. The current method for diagnosing appendicitis involves a CT Scan which only has a 78% chance of correctly ruling out the infection and exposes the patient to a massive (50x a standard chest x-ray) amount of radiation. (misdiagnosis also leads to 15% of appendectomies being unnecessary.) The cost of a CT Scan is also far greater... between \$200 to \$2,000. AspenBio's AppyScore has a 95% chance of ruling out appendicitis, has no exposure to x-ray radiation, costs approximately \$100 per test and can provide results in as little as 15 minutes.

\$1 billion potential market – 7% to 9% of the world's population will get appendicitis in their lifetime. According to APPY, 10MM patients enter the emergency room annually complaining of abdominal pain. At \$100 per test, this could be a \$1 billion market.

Making progress with new clinical study – Under APPY's prior leadership, the previous clinical study demonstrated a negative predictive value of 87%. Even though that was better than a CT Scan's predictive value (78%), it was below the company's target of 90% and caused the stock to lose approximately 2/3 of its value. During 2009 APPY began a new clinical study and this month plans to meet with the FDA to answer questions prior to approval of AppyScore. The test is expected to receive approval by late '10 or early '11.

New management brings credibility – After missteps in managing the company's first round clinical trials, the company replaced its CEO. The new CEO, Daryl Faulkner, has more than 25 years experience in developing and commercializing medical devices. Previously, he was with Digene, which sold for \$1.6 billion to Qiagen. Surely Mr. Faulkner would have better things to do if he didn't believe that there was some merit in AspenBio's products.

Potential sale of animal science products could provide growth capital – The company currently licenses its reproductive drug technology to Novartis. As these drugs come to market, the value of the technology could be harvested in a sale to Novartis. The company could use the proceeds to support the development of its AppyScore test without having to raise outside capital at dilutive prices.

VALUATION:

The company has about \$15 million in cash, which gives it about 15 months to reach commercialization at its current cash burn rate. Prior to the missteps of the prior management team and based on the anticipated success of the new appendicitis test, shares traded between \$6 to \$8 per share (and peaked at \$14). If the new management is successful in making progressive steps towards commercialization, which appears to be the case, the company's value should increase in line.

(Nasdaq:APPY)

Investment Data (as of 1/22/10)

Recent Price	\$2.20
52-Week Range	1.22 - 3.15
Fiscal Year End	December
Shares Outstanding	37 MM
Average Trading Volume (3 mos)	135,000
Market Capitalization	\$81 MM
Cash	\$15 MM
Debt	\$3 MM
Enterprise Value (EV)	\$69 MM
Debt/ Equity	N/A
BV/ Share	N/A
TTM Revenue	340K
P/ Revenue	NA
TTM EPS	-0.40
P/ EPS	NA
TTM EBITDA	-12.6MM
EV/ EBITDA	NA

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Best Idea Profile

Cano Petroleum (Amex: CFW)

DESCRIPTION:

Founded in 2004 and headquartered in Ft. Worth, TX, Cano Petroleum is an oil and gas production company specializing in enhanced recovery methods. From 2004 to 2009 Cano assembled a portfolio of properties suitable for state-of-the-art recovery techniques. These properties are located in Texas, Oklahoma and New Mexico. The company has proved reserves of 49.1 MMBoe along with 13.9MMboe of probable reserves. In September, Cano announced a proposed merger with Resaca Exploration, Inc. which also exploits mature, low-risk oil and gas reserves. Resaca was formed in 2008 and has been actively seeking properties such as Cano's. Resaca has 14.1 MMboe in proved reserves, which are already 56% developed and access to resources at Torch Energy. The proposed transaction would combine the excess capacity and resources of Resaca with the undeveloped potential of Cano. The combined company would have proved reserves of over 63 MMboe with a PV10 of \$653MM (81% oil) from operating assets in Texas, Oklahoma and New Mexico.

KEY INVESTMENT CONSIDERATIONS:

Upside potential from proved undeveloped locations – Resaca has 14.1MMboe which is 56% proved developed whereas Cano has 49.1MMboe which is 21% proved developed. Resaca's current level of development will leave it in a position to shift capacity and expertise to Cano's operating assets. The areas of operation for the two companies are quite complimentary with Resaca's existing properties being located in Texas and Oklahoma. Also, the technical and operational staffs are used to working on similar projects. The companies' are suggesting that the combined entity could increase productivity by 10-20%.

Significant reductions in cost structure - Cano has already been on an aggressive cost reduction program. 1Q10 lease operating expense (LOE), on a production basis, was down 15% vs. 1Q09. CFW was already targeting LOE to trend from \$38.73 per barrel of equivalent oil (BOE) in the 1Q10 to \$30/BOE during the last half of the current fiscal year. The proposed merger offers synergies and scale which could result in further cost reductions. The companies are suggesting that G&A and lease operating expense (LOM) for the combined entity could see reductions in the \$4.5 to \$5MM range on an annual basis. For FY09 CFW and Resaca had combined G&A and LOE expenses of \$48MM.

Additional financial strength and stability - Cano funds a portion of its operating and capital needs through credit agreements. CFW's credit agreement is

\$60MM, with \$19.3MM available as of June '09. If the merger takes place the new Resaca will have about \$96MM in long-term debt. The merger should provide the combined company with more efficient access to capital at a lower cost than either Resaca or CFW could have on a standalone basis. The combined company should also benefit from cash flow from the quicker ramp-up of production in Resaca's developed reserves.

VALUATION:

Based on the current price of Resaca's shares, the value of Resaca shares issued in exchange for Cano is \$53 million, which is a 34% premium to Cano's current share price. (At the time the transaction was announced, Resaca's shares were valued at \$88 Million, or 65% higher.) If the transaction is completed and Resaca share price stabilizes, Cano shareholders will capture the arbitrage. Longer term, as costs are reduced and debt levels are rationalized, shares should trade at a smaller discount to its peers. Based on total EV to proved Boe, the combined company's valuation of \$2.97, is a significant discount to the mean value of its peers of \$19.42. Cano has had restricted communications with investors in recent months due to the proposed merger with Resaca. Resaca intends to apply for a listing on the NYSE Amex thereby leaving the merged company trading on both exchanges. This dual market listing should help bring about additional liquidity and market visibility. The two companies also have little overlap in their institutional investor base which should help diversify the shareholder base.

(Amex: CFW)

Investment Data (as of 1/27/10)

Recent Price	\$0.87
52-Week Range	0.62 - 2.55
Fiscal Year End	December
Shares Outstanding	45 MM
Average Trading Volume (3 mos)	160,000
Market Capitalization	39 MM
Cash	<1 MM
Long Term Debt	61 MM
Enterprise Value (EV)	99 MM
LT Debt/ Equity	0.4
BV/ Share	3.18
TTM Revenue	51 MM
P/ Revenue	3.0x
TTM EPS	-0.20
P/ EPS	N/A
TTM EBITDA	-47 MM
EV/ EBITDA	N/A

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Best Idea Profile

MarineMax (NYSE: HZO)

DESCRIPTION:

Headquartered in Clearwater, Florida, MarineMax came public in 1998 shortly after combining with 5 independent boat dealers. Since coming public, the company has acquired 20 additional independent boat dealers, two boat brokerage operations and two full-service yacht repair operations, becoming the largest dealer of new and used high-end boats in the United States. The average selling price of new boats sold by MarineMax was \$133,000 during 2009, versus the industry average of 37,000 during 2008. In addition the company offers boat maintenance, repair, and storage services (8% of FY09 revenue). The company has 55 locations (down from 90 at peak) and 1,245 employees (1,195 at store-level).

KEY INVESTMENT CONSIDERATIONS:

Tighter credit markets boost HZO's competitive advantage – According to the National Marine Manufacturers Association retail boat and related sales were \$25 billion during 2008. This is a highly fragmented market with many small dealers. Tighter credit markets and a depressed economic environment, make it more challenging for these smaller dealers to compete against the efficiencies of scale and scope enjoyed by MarineMax. In this difficult environment, a larger player like MarineMax has a greater opportunity to capture market share and come out of the trough an even stronger player.

Industry rationalization should stabilize profitability for the industry - Similar to MarineMax's decision to close almost 40% of its store base, there has been significant rationalization among boat retailers and manufactures. The demise of retailer Boater's World and manufacturer Genmar Holdings are good examples. In addition to store count and manufacturer rationalization, inventories have been dramatically reduced during this past year. According the NMMA, there has been a 70% decline in boat production in the United States. The rationalization of inventory and retail space should stabilize industry profitability and allow for HZO to return to targeted levels. Brunswick (NYSE: BC) a major supplier to MarineMax reported results recently and indicated they began to ramp production to address inventory requirements from dealers, a good sign that inventory levels have bottomed out.

Interest in boating remains high – While sales for the industry are off significantly, there is still significant interest in boating. Anecdotally, attendance figures at many of many major boat shows improved year over year. At the 50th Fort Lauderdale International Boat Show in early November, attendance increased 1% versus the prior year. At opening weekend of the Houston International boat show attendance was up 25% and attendance was up 9% for the duration of the show.

VALUATION:

Trading near tangible book value, there appears to be some downside protection for the stock at current levels. At 17x the forward estimate, the stock appears fully valued. However, the forward earnings are likely still depressed and don't accurately reflect the earnings power of the company. Prior to the downturn, the company regularly produced return on equity in the low to mid teens and net margin in the 3% to 5% range. Applying historic margin levels to the current revenue run rate of about \$600 million, the company's earnings power would equal \$0.80 to \$1.35. At today's multiple that would equate to 50% to 100% upside.

(NYSE: HZO)

Investment Data (as of 1/27/10)

Recent Price	\$9.53
52-Week Range	1.19 - 10.68
Fiscal Year End	December
Dividend	N/A
Yield	N/A
Shares Outstanding	22 MM
Average Trading Volume (3 mos)	150,000
Market Capitalization	\$210 MM
Cash	\$26 MM
Debt	\$142 MM
Enterprise Value (EV)	\$326 MM
Debt/ Equity	0.7
Tangible BV/ Share	\$8.99
TTM Revenue	588 MM
P/ Revenue	0.4
2010 EPS Estimate	0.56
P/ EPS	17.1
TTM EBITDA	-60 MM
EV/ EBITDA	NA

DESCRIPTION:

Established in 1993, China Yuchai International Limited is a holding company based in Bermuda that owns a controlling interest in Guangxi Yuchai Machinery Company Limited. Founded in 1951, Yuchai is the largest diesel engine, power generator and engine parts manufacturer and distributor in China. Yuchai sells light, medium and heavy-duty diesel engines, parts and generators to auto OEMs and retailers. In addition, the company holds interests in businesses engaged primarily in supply chain management, electronic manufacturing services, property development and investment, and hospitality operations in China and other Far Eastern countries.

KEY INVESTMENT CONSIDERATIONS:

Secular growth for diesel engines in China - China has expanded its highways and toll roads over the past several years, which has also led to a demand for trucks and buses, benefiting CYD's growth since 2005. According to The Infoshop, Asia/Pacific is now the world's largest market for diesel engines and is expected to exceed 1/3 of the market by 2012. As one of a few manufactures that meet European emission standards, Yuchai's sales are likely to benefit from stricter emission standards that are expected to be implemented in China. While the Chinese economy was not immune to the global financial crisis in 2008, it has improved in 2009 with the government providing a financial stimulus to the economy in efforts to attain a GDP growth target of at least 8%. Sales for CYD have rebounded nicely for the first three quarters of FY09 (\$1.44B vs. \$1.52B for all of FY08).

Becoming more investor friendly could drive valuation multiples - CYD recently held its first conference call with the investment community. Third quarter results were announced in November, with management addressing questions from investors for the first time in the company's history. CYD plans to continue to hold regular conference calls. Yuchai also stated that they plan to meet with investors on a road show to the U.S. early in 2010. Increased transparency and exposure by these actions could lead to a larger investor base and should provide support for higher valuation multiples.

A strong cash balance and moderate amount of debt – With nearly \$40 million in cash and \$140 million in short and long-term debt at the end of 3Q09, Yuchai had \$6.97 in net cash per share at the end of its most recently reported quarter.

Strong competitive position – CYD is the largest manufacturer and distributor of diesel engines in China, giving it significant efficiencies of scale. The company recently signed a joint venture with Caterpillar to start a diesel engine remanufacturing business. In addition, Yuchai has a strong reputation among truck manufacturers and consumers for performance and reliability and provides after-sales service to end-users, both of which competitively differentiate CYD from other domestic diesel engine manufacturers.

VALUATION:

The 2009 financial performance estimates in the table below are based on performance during the first nine months of the year and management's comments during the most recent conference call. Based on these estimates, the stock appears attractive on several metrics. The leading provider in a market segment that is experiencing long term secular growth and is valued at less than 2x EV/ EBITDA is very attractive. CYD has hired Ernst & Young as its auditor after having some reporting issues during 2008. Hiring a respected accounting firm combined with increased transparency should give investors more confidence in the truthfulness and accuracy of its numbers and allow valuation multiples to expand.

(NYSE: CYD)	
Investment Data (as of 1/29/10)	
Recent Price	\$13.40
52-Week Range	3.17 - 19.92
Fiscal Year End	December
Dividend	\$0.10
Yield	0.8%
Shares Outstanding	37 MM
Average Trading Volume (3 mos)	500,000
Market Capitalization	\$500 MM
Cash	\$399 MM
Debt	\$140 MM
Enterprise Value (EV)	\$240 MM
Debt/ Equity	0.25
BV/ Share	\$15.38
2009 Revenue (estimate)	1.9B
P/ Revenue	0.3
2009 EPS (estimate)	1.80
P/ EPS	7x
2009 EBITDA	140 MM
EV/ EBITDA	1.7x

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The goal of the Best Idea Profiles in this newsletter is to describe all of relevant investment merits and risks of a company in one page. It is not intended to be an exhaustive report including every detail of a company. With limited space available, I am forced to include only those data points that I feel are most important for subscribers to know before they begin their own due diligence. Thank you for your interest in Mossberg's Investor Digest.

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